

National Income and Product—

A Review of the 1957-58 Decline and Recovery

NATIONAL income and output recorded a substantial advance in the third quarter as the economy extended the recovery from the low point reached early last spring. In dollar value—though not yet in physical volume—production was nearing the peak rates of 1957. The pattern of recovery has been diverse, though most major segments have shared in the rise.

With the third quarter a full year has passed since the 1957 downturn began. It is therefore timely to review this period of recession and recovery as a whole.

The Nation's output in the third quarter still reflected in clear outline the impact of the earlier economic slide. The markets for durable goods and business construction were showing signs of firming, but nevertheless remained well below the prerecession peak.

In contrast, demand for nondurable goods and services has been well sustained. Call for these products is closely linked to current consumption needs and consumer behavior in the 1957-58 recession reflected the fact that disposable income at no time underwent any substantial contraction. Government and business demand, too, held up well or expanded in these categories. In the aggregate, spending for nondurable and service components of the national product was scarcely checked in its postwar growth, and is now considerably larger than a year ago.

While high investment in durables and construction has been an outstanding feature of the postwar period, services and nondurables still make up more than two-thirds of the GNP, and the steady strength of final demand for them has been a stabilizing factor in earlier business declines as well as in the most recent ones. During the cyclical downswing it has served as a brake, and its contribution to subsequent recovery has been prompt and substantial.

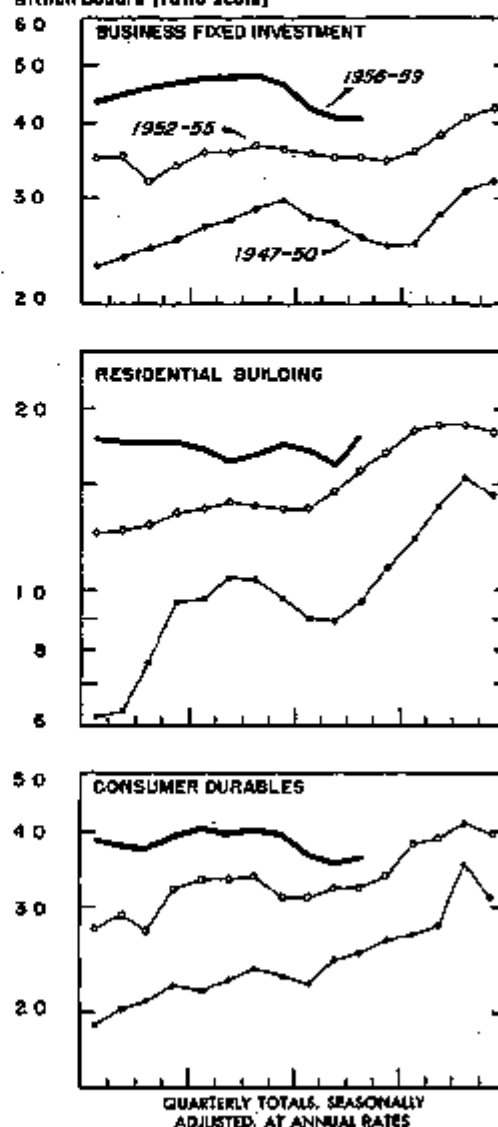
The demand strength shown in these categories—and in certain more durable lines as well—may be traced to a combination of circumstances well illustrated in the experience of the past 12 months. Of primary importance among these circumstances are the maintenance of consumer incomes; the short-run tendency of consumption standards to resist change; and the current size of the governmental market, where demand is not so directly tied to the business cycle. The role of these factors in limiting the severity of the recession is indicated below in connection with specific markets.

Basic to the turnaround was the shift that occurred in Government programs, not only in the national defense category but also in the stimulation of residential housing through Federal financing aids. The declining trend in

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Fluctuations in Durable Goods Demand

Billion Dollars (ratio scale)



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homebuilding was reversed early in the year, and by the end of the third quarter of 1958 housing starts were running at the highest rate in 3 years. The reversal of the mid-1957 cut in national security programs was reflected before year end in an acceleration of contract placements, and in the growth of actual procurement subsequently. The simultaneous lifting of social security payments under the unemployment and old-age and survivors' insurance programs added to consumer buying power, as did the raising of Government employees' salaries in June retroactive to the first of the year.

Recession and recovery

From the third quarter of 1957 to the first quarter of 1958, the reduction in final purchases by all groups in the economy totaled 2 percent. It involved relatively deep sales declines in autos and in a variety of investment-type goods. These, together with the associated swing to general inventory liquidation as the near-term market outlook clouded, were major factors in the recession of the GNP and of employment. The immediate result was a relatively sharp cutback in the Nation's income from current production.

The market impact of this income reduction cannot be distinguished at all precisely among the shifts which occurred in final-product sales, but clearly it was not very great in

the general picture was substantially the same, though certain differences of detail will be pointed out below.

The slide in the national market leveled off during the spring. In the summer quarter it was decisively reversed with a \$10 billion advance in gross national product. Substantially all the major elements of demand for the national output either stabilized or moved ahead in this period. Income from current production expanded accordingly, with hours and employment rising and average pay rates continuing upward.

Gross national product for the third quarter was at an annual rate of \$439 billion—about \$6½ billion below the record peak reached in the summer of 1957 and \$13 billion above the first quarter 1958 low. Details are given in table 1.

Price and volume changes in GNP

The price firmness which featured the period under review has been strongly conditioned by the strength of real demand for final goods and services and by inflexible costs over wide segments of the economy. Under these conditions, price advances representing adjustments to higher production costs or stemming from current deficiencies of supply have sometimes led directly to increased dollar outlays by consumers. The consumer price index advanced from quarter to quarter through most of the recession before leveling off in the past 2 months. Sales in other major markets for the national output are likewise generally at higher prices now than a year ago, though physical volume has been less well maintained in some of these areas.

Relative to the best 1957 quarter, therefore, the overall recovery in real volume of output has not been so nearly complete as the recovery in the current-dollar measures.

Price advances were more marked during the two quarters of business decline; the general level has changed relatively little since early last spring. The movement thus contributed more toward minimizing the downswing in dollar value of output than to inflating the recovery. The advance of the GNP since the recession lows of last winter seems to have been mainly a reflection of gains in physical volume.

CAPITAL GOODS BOOM CHECKED

The combined total of domestic and foreign investment in the gross national product fell from a record \$70 billion annual rate in the first three quarters of 1957 to \$63½ billion in the fourth quarter. It dropped \$13 billion further as 1958 opened, but leveled off last spring and has registered some recovery since midyear.

As the cycle moved toward its 1957 high, production and profits had gradually ceased to rise. Investment was high, one-sixth of the national output being used for this purpose, but the flow of new orders to the capital goods industries was tapering. There were clear signs of softening also in the demand for consumer durables. Outbacks were announced in procurement schedules for aircraft and other military hard goods, and defense contract awards fell off sharply during the summer.

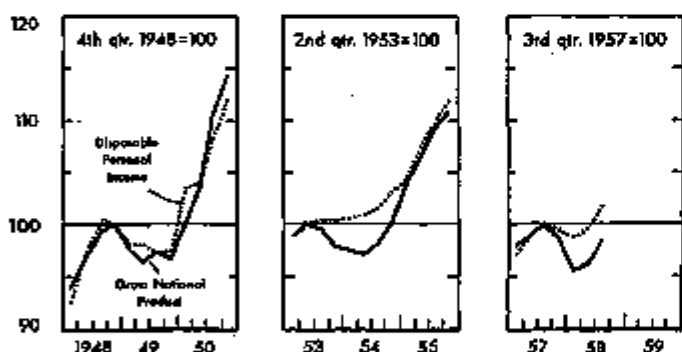
Events in the markets for goods and funds alike suggested an increasingly conservative attitude toward new capital investment and a tightening in standards of liquidity.

These tendencies, in turn, reacted upon the markets. The national income accounts showed a fourth-quarter decline of \$1½ billion in business fixed investment and a \$4½ billion swing from accumulation to liquidation of inventories. At the same time substantial amounts of business debt were paid off and new borrowing slowed.

The trend to financial caution persisted during the winter, and additions to the physical assets of business in the first

Consumer Buying Power better maintained than Output during postwar recessions

Index, peak-output quarter = 100



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the aggregate. A rise in unemployment compensation and other social security benefits made up for more than half the overall decline in total payrolls from the third quarter of 1957 to the second quarter of 1958. At the same time personal taxes decreased with the cut in taxable earnings. A drop in corporate tax accruals likewise accompanied the sharp reduction in profits, and the incidence of the fall in after-tax net income was on undistributed earnings; dividends were maintained at about the 1957 rate.

The 5-percent cut in earnings from current production was thus not reflected in quarterly disposable personal income, where the drop amounted to barely more than 1 percent.

The accompanying chart shows that consumer income was largely insulated from the effect of earnings reduction in each of the three short postwar recessions. In all three cases

quarter of 1958 were as small as any recorded in nearly a decade.

By the end of March, corporations had attained a higher degree of liquidity than has been shown by the ratio of current assets to current liabilities for any comparable period since 1954. In the favorable monetary situation produced by the Federal Reserve Board's policy of active ease, on the one hand, and the decline in calls for loan funds, on the other, this position was reached without impairing the asset values concerned.

The gross national product report for the spring quarter showed the slide in plant and equipment outlays tapering and the liquidation of inventories slowed.

The subsequent course of investment spending has been about in line with the pattern established in the previous postwar recessions. Inventory liquidation slowed further after midyear with the change centering in hard goods, which have accounted for the bulk of the sell-off. Fixed investment remained well below the levels which had characterized the boom. The upturn of plant and equipment outlays after the 1949 and 1954 recessions, it may be noted, likewise lagged behind that of the GNP as a whole.

Industrial pattern of recession

The contraction of investment spending, while widespread, reflected principally the course of events in the same major industry divisions where the weakening in production, sales and profits had centered. These divisions—manufacturing, mining, and transportation—have historically borne the brunt of cyclical change. While the bulk of the dollar decline in investment, like those in output and net earnings, was in the large manufacturing division, all three industries have been characterized by cutbacks which were sharp in percentage terms.

Within manufacturing, the current recession featured a more severe cut in capital outlays of durable-goods producers than in nondurables groups. This difference was consistent with the relatively greater expansion of investment spending which had featured the durable-goods lines before the downturn. This pattern is somewhat different from the preceding postwar cyclical experiences, in which durable and nondurable goods manufacturers moved more nearly together in reducing such outlays.

Business fixed investment

The course of business fixed investment this year was analyzed in detail in the September SURVEY. The accompanying chart brings out the marked general similarity in pattern of the postwar recessions in such investment, and particularly between the earliest and the latest.

The cutback is seen to have been relatively more severe in manufacturing than in other industries as a group in all three recessions. Nearly every major manufacturing industry shared in the declines in each case, gains in 1954 for transportation equipment and the stone-clay-glass group having been the sole exceptions. Outside of manufacturing, the course of the investment total has reflected relatively well-maintained outlays by public utilities during the 1949 and 1958 recessions and by commercial concerns in 1954 and 1958.

Anticipatory data for the second half of 1958 suggest a stabilization of plant and equipment spending at about the overall rate reached in the spring quarter.

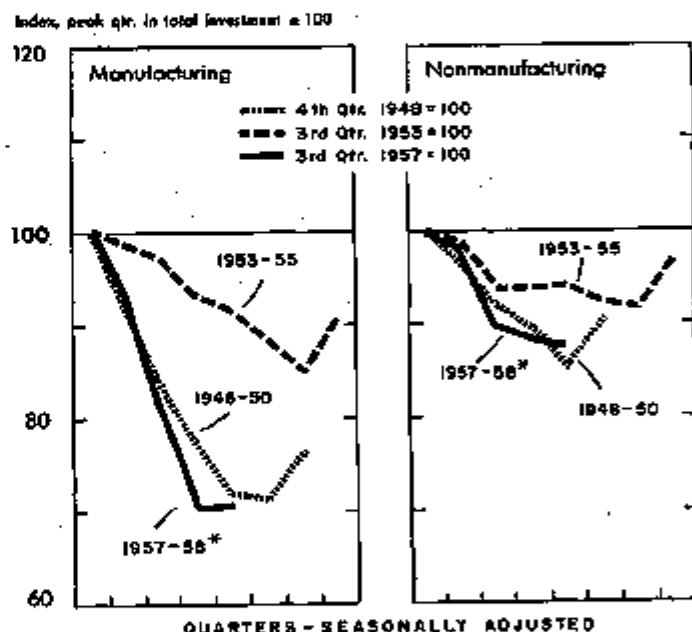
Inventory liquidation

Led by reductions in holdings of aircraft and other metal-product manufacturers, inventories moved lower in the closing quarter of last year. The liquidation was stepped up sharply after the turn of the year, with substantial reductions in trade stocks as well as in those of manufacturers. During the spring there was some slackening, as holdings of distributors other than auto dealers generally leveled off or turned up toward midyear. Liquidation was initiated or stepped up, however, in several nondurables-manufacturing groups.

Third-quarter developments included a buildup in auto manufacturing and a slowing in the pace of liquidation in a number of other durable-goods lines in manufacturing and trade. Partly offsetting these shifts were an accelerated decline in auto dealers' holdings and a renewed drawing-down of food and apparel store stocks.

The combined effects of the substantial recovery in business sales and the cumulative reduction during the past year in

Postwar Downturns in Plant and Equipment Expenditures



*Third quarter for 1958 anticipated in August reports to SEC-OMB

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inventories—the latter being the sharpest for any comparable period in many years—have brought stock-sales ratios in general to levels comparable with the prebuildup figures of late 1954.

Residential construction

The rise of homebuilding activity this year, following the easing of credit conditions, has played a key part in the economic recovery.

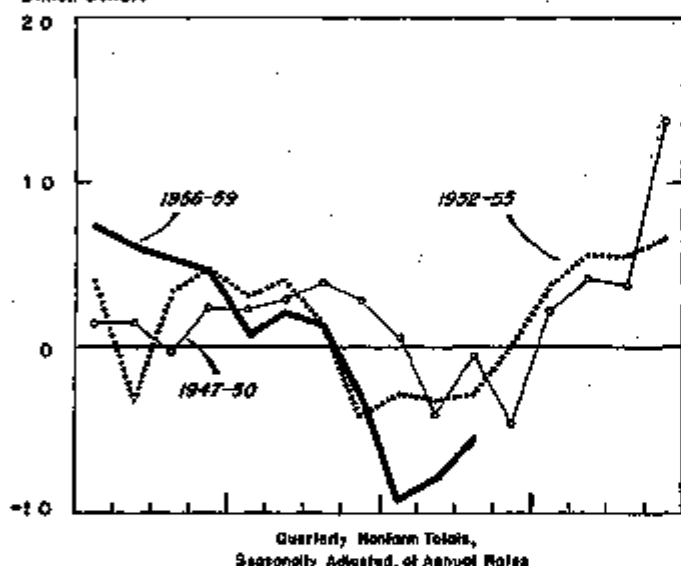
Residential construction was down during 1957, in line with the trend which had been in evidence since the peak in the spring of 1955. Most of the reduction has been in work involving Government-backed financing. The demand for such mortgages was comparatively weak last year, as other investment fund outlets offered higher yields and, in some

cases, prospect of capital appreciation. Among the major sources of mortgage money, life insurance companies and mutual savings banks in particular turned increasingly to corporate and other investment securities.

During much of 1958, by contrast, the situation was favorable to home financing. With gross private saving continuing high and safe investment outlets at a premium, the easing of eligibility requirements for Government backing was followed during the first half of this year by a pronounced rise in applications for VA guarantee and FHA insurance, which continued into the summer. Residential construction activity advanced accordingly. Private housing starts moved above the million mark in May, at seasonally adjusted annual rates, and passed 1.2 million in September. The value of activity indicated for the summer quarter was over 5 percent, or \$1 billion at annual rates, above 1957.

Postwar Swings in Inventories

Billion Dollars



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The changed terms of Government-supported mortgage financing—in particular, the higher interest rate ceilings and the reduction or removal of downpayment regulations—were supplemented in their effects last spring by legislation authorizing the Federal National Mortgage Association to invest up to \$1 billion in purchases at par of guaranteed or insured mortgages on new lower-cost housing. Nearly all of this authority was committed in the period from April through September, and purchases at par were terminated in August.

PERSONAL INCOME AND CONSUMPTION

The third-to-first-quarter reduction of personal income centered in payrolls. These fell off 3 percent—\$7 billion at annual rates. The decline was mainly a reflection of the reduction in employment, though the length of the average workweek was also cut. Average hourly earnings moved up from quarter to quarter.

Benefit payments under the State unemployment insurance systems expanded as employment declined. Claims and payments under other social security programs also rose markedly, retirement benefits accounting for much of the

increase. Changes in transfer payments are summarized in the accompanying table, which shows how their contribution to total personal income has expanded in the course of the recession.

Payrolls reached a low point in the spring, and moved up in the summer to account, on net balance, for the larger

Change From Preceding Quarter

	1957	1958		
	IV	I	II	III
Billions of dollars, seasonally adjusted at annual rates				
Government transfer payments.....	1.3	1.2	2.1	0.6
Old-age and survivors' insurance.....	.8	.2	.8	.5
Unemployment compensation.....	.7	.6	1.9	.8
Other.....	.4	.4	.2	~.1
Other personal income.....	-1.4	-1.7	.5	7.0
Less: Personal tax and nontax payments.....	-1	-7	8	1.2
Equals: Disposable personal income.....	-1.9	-1.8	2.8	6.5

part of the rise in personal income during this period. Transfer payments expanded further after midyear with the federally underwritten extension of benefits in many States for individuals still unemployed.

Drafts on savings

There is considerable evidence of drafts on accumulated savings and other financial reserves as unemployment increased during the fall, winter, and early spring. There were sharp advances in disbursements of private pension and welfare funds with unemployment insurance commitments. In areas where layoffs were especially widespread, redemptions of savings and loan shares and of Series E savings bonds also showed the effects of the economic pressure.

For the income recipients whose earnings were not directly and substantially affected by the recession, the overall pace of saving seems to have been well maintained and there was a rapid rise in savings deposits. The more cautious attitude generally prevailing was expressed in a lessened willingness on the part of potential buyers to mortgage their future incomes for the purchase of big-ticket durable goods.

Consumer durables

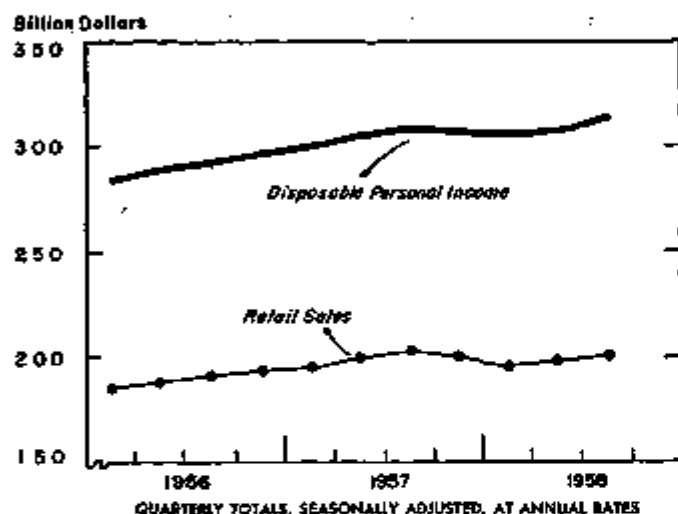
Reductions in consumer spending for durable goods were particularly severe in the new car market. As 1958 opened, auto purchases dropped to the lowest figure recorded for the season in 4 years. This falling off was a principal factor in a \$6½ billion decline in the annual rate of automotive gross product—a measure of the total output directly associated with automotive demand. This reduction was nearly one-third of the decline in national output as a whole from the third quarter to the first.

The total number of new passenger cars sold in January-October 1958 represented a cut of more than 30 percent from the same period of 1957. Automobile installment credit outstanding, at \$14½ billion in September, was \$1 billion below the high reached about a year earlier. While repayments on such debt have been steady at a seasonally adjusted monthly rate near \$1.3 billion over this period, new credit extensions since last winter have ranged downward from \$1.2 billion.

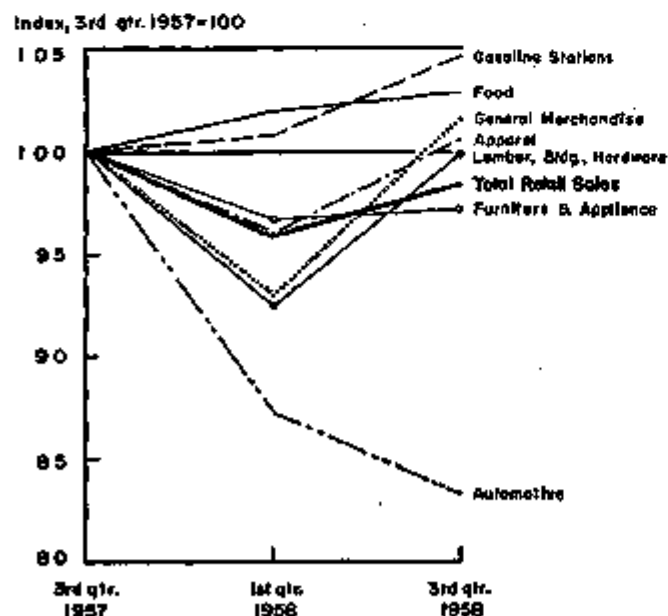
In the first postwar recession, an accumulated backlog of demand made the new car market an element of economic strength. Five years ago, however, a drop in new car sales contributed substantially to the business decline. In that case resurgence of auto production in the fourth quarter of 1954 sparked an upswing in the gross national product amounting to 2½ percent. An important stimulus is developing this fall from the same source, as the new models move into full-scale production. The duration of this and its effect on the GNP are yet to be determined: the real size of the demand will not emerge until after 1959 models have become available in volume.

Retail Sales

Have moved with income . . .



and by lines of trade have varied in the past year



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At furniture and appliance stores, sales likewise fell off after the third quarter of 1957. The recession was not nearly so marked as in sales of automobiles. The market weakness continued through the first half of this year but an upturn was indicated in the third quarter.

Real demand for nondurables firm

Disposable income having fallen so little and recovered so promptly in this recession, expenditure for nondurable goods has been generally stable during recent quarters except for fluctuations in response to price movements.

Of the \$140 billion spent for nondurables annually, food and clothing account for roundly \$100 billion. Food outlays since mid-1957 have followed rather closely the complicated path traced by food prices. (See chart on p. 7.) The price fluctuations, which were greater than seasonal, seem to have stemmed from changes in the supply situation.

Outlays for clothing and shoes sagged in the fourth quarter of 1957, and paralleled the subsequent decline of prices to a plateau in the first half of this year. In the third quarter, spending turned up in both real and money terms.

Service purchases have risen uninterruptedly in all three of the postwar recessions. Growth recently has been at an annual rate of about 1 percent—\$1 billion at annual rates—per quarter. Among the most important factors in the expansion are the rise in housing rentals and the year-by-year growth in the number of families and dwellings with their associated utility requirements.

Trends analogous to those which underlie the rise in consumer service spending are largely responsible also, it should be noted, for the continuing postwar expansion of finance, insurance and real estate, and of the public utilities industries.

ROLE OF GOVERNMENT

The fiscal and other government actions during the cyclical swing have already been noted in general.

For Federal, State, and local governments combined, since the third quarter a year ago purchases of goods and services have risen \$6½ billion at annual rates. Transfer payments have increased \$5 billion. And the tax take from individuals and business decreased \$6½ billion to the opening quarter of the year before moving up with the recovery in private incomes.

The timing of these purchase, transfer, and revenue changes since the summer of 1957, and their effect in bringing about a swing from surplus to deficit in the national income accounts for government, are summarized in the accompanying table.

The various transactions in this summary are presented consistently with the way they are shown in the national

Change From Preceding Quarter

	1957		1958		
	III	IV	I	II	III
Billions of dollars, seasonally adjusted at annual rates					
Government expenditures.....	-0.5	2.5	2.9	2.3	2.0
Purchases of goods and services.....	-0.5	1.9	1.2	1.4	2.4
Transfer payments.....	.1	1.3	1.2	2.1	.6
Other.....	-.1	-.1	.6	-.9	0
Government receipts.....	1.0	-2.5	-4.2	.5	4.9
Surplus or deficit (income and product account).....	1.5	-5.1	-7.0	-2.8	1.9

income accounts for business and persons, so that their impact on these broad areas of the national economy can readily be traced back to the public policies and programs involved. In particular, it is important to note that transactions with business are measured in accordance with the accounting practices of business rather than those of government. Corporate taxes are reported on an accrual basis, for example; and, since this is a current account, borrowing and other capital-fund transactions are excluded.

The composition of transfers has already been indicated, and that of purchases is discussed below. The movements in the fourth line of the table stemmed mainly from the item of subsidies less enterprise surpluses, which has fluctuated irregularly with changes in postal, farm price support, and soil bank operations of the Federal Government.

Expansion in purchases

Purchases by the Federal, State, and local governments in the third quarter amounted to \$93½ billion, at annual rates, or one-fifth of the gross national product.

Total buying by these governments was off fractionally in the summer of 1957. The decline involved a downward reaction in national security spending from the 3-year high reached earlier in the year; and the non-Federal portion of the government total was held level at this time, as supply

difficulties temporarily checked the growth of construction outlays.

In each of the next three quarters, however, the government market expanded by \$1 billion to \$1½ billion, at annual rates. The advance last summer amounted to \$2½ billion.

The increases during the business downswing were principally in State and local expenditures. The Federal Government adopted a policy of expediting the award of supply contracts as a means of fighting recession, and noneconomic factors brought an increase in emphasis on military preparedness. The stretchout in production and delivery schedules could not be reversed immediately, however. Among other difficulties, the stepping up of the rate of purchases involved complicated technical problems arising, e. g., from the growing importance of revolutionary new types of weapons and power plants.

Defense purchases began to move up around midyear. Increased outlays for military personnel and for research and development have contributed to the expansion, which continued in the summer quarter.

Changes in defense procurement schedules begin to affect the national economy well in advance of the delivery dates concerned. Contract awards for military procurement fell off \$1½ billion in the summer of 1957, but had more than made up this drop by the opening quarter of 1958 and rose several billion further in the spring. One apparent consequence of this trend was the tapering, late in the winter,

Table 1.—Gross National Product, 1953–57, and First 3 Quarters, 1958

(Billions of dollars)

	1953	1954	1955	1956	1957	Seasonally adjusted at annual rates								
						1957				1958				
						I	II	III	IV	I	II	III		
Gross national product.....	365.4	368.1	397.5	419.2	440.3	436.3	441.2	445.6	438.9	425.8	429.0	439.0		
Personal consumption expenditure.....	232.0	238.0	256.9	269.4	284.4	279.8	282.5	288.8	287.2	286.2	288.8	291.5		
Durable goods.....	32.9	32.4	30.6	33.4	39.9	40.2	39.5	40.4	39.6	36.8	35.6	36.1		
Nondurable goods.....	113.0	119.3	124.8	131.4	138.0	135.5	137.1	140.5	138.8	139.8	141.4	142.9		
Services.....	81.8	86.3	92.5	99.6	106.5	104.1	105.9	107.4	108.7	110.1	111.3	112.5		
Gross private domestic investment.....	50.3	48.9	63.8	68.2	65.2	65.9	67.0	66.7	61.5	49.6	49.2	53.7		
New construction.....	27.6	29.7	34.9	35.7	36.5	36.1	36.1	36.6	37.1	36.3	34.9	36.3		
Residential nonfarm.....	13.8	15.4	18.7	17.7	17.0	17.2	16.5	16.9	17.6	17.1	16.2	17.9		
Other.....	13.8	14.3	16.2	18.1	19.5	18.9	19.6	19.7	19.6	19.2	18.7	18.4		
Producers' durable equipment.....	22.3	20.8	23.1	27.0	27.9	28.7	28.1	28.0	26.7	22.9	22.3	32.3		
Change in business inventories, total.....	.4	-1.6	5.8	6.4	1.0	1.1	2.9	2.2	-2.3	-9.5	-8.0	-5.0		
Nonfarm only.....	1.1	-2.1	5.5	5.9	.2	.6	2.0	1.3	-2.1	-9.3	-7.8	-5.4		
Net foreign investment.....	-2.0	-.4	-.4	1.4	3.5	4.2	4.2	3.6	1.9	.5	.5	.5		
Government purchases of goods and services.....	84.4	76.6	77.1	80.3	87.1	86.4	87.5	87.0	88.3	89.5	90.9	93.3		
Federal.....	59.5	48.9	46.8	47.1	50.8	50.5	51.5	50.9	50.5	50.9	51.9	53.4		
National security.....	51.5	43.0	41.3	42.5	46.5	45.8	47.4	46.9	46.0	45.6	46.0	46.6		
National defense.....	49.3	41.2	39.1	40.3	44.3	43.7	44.9	44.9	43.9	43.7	44.1	44.5		
Other national security.....	2.3	1.9	2.2	2.2	2.2	2.1	2.5	2.0	2.1	1.9	2.0	2.1		
Other.....	8.4	6.2	5.9	5.0	4.8	5.1	4.5	4.5	5.0	5.7	6.2	7.2		
Less: Government sales.....	.4	.4	.4	.4	.5	.4	.4	.5	.5	.4	.4	.4		
State and local.....	24.9	27.7	30.3	33.1	36.3	35.9	36.0	36.1	37.8	38.6	39.1	39.9		

Source: U. S. Department of Commerce, Office of Business Economics.

of the heavy liquidation in aircraft manufacturers' inventories which had developed early in the business recession.

Buying by the Federal Government for purposes other than security moved up in the final quarter of last year, and has continued to advance, reaching a \$7 billion annual rate in the summer. Among the factors in the rise have been a step-up in seasonally adjusted expenditures in connection with farm price supports and certain other programs, and an increase in the pay of general government employees.

The latest Budget estimates for the Federal Government and the evidence of well-established trends in State and local expenditures suggest that the rise in total purchases is likely to continue through most if not all of the current fiscal year.

Tax yields decline

Personal taxes were down nearly \$1 billion from the third quarter of 1957 to the opening quarter of 1958, a drop in Federal individual income tax payments more than offsetting increases elsewhere. By last summer, a decisive upturn mirrored the recovery of incomes.

Because profits respond so sharply to changing business conditions, profits taxes are the most volatile major element in the revenue structure. Corporate profits tax accruals accounted for around nine-tenths of the decline in governmental revenues from the third quarter of last year to the first quarter of 1958.

Other business taxes showed little change in total during the economic downswing. Federal levies fell off with the lessened yield from manufacturers' and other excises. State and local business taxes, however, continued to move up. Expansion in these has been partly a matter of rising rates; a more fundamental cause lies in the continued expansion of the real estate tax base.

Monetary policy

The Federal Reserve System cut discount rates in November 1957 and again in January, March, and April of this year. Reserve requirements were likewise lowered, in successive stages from the end of February through April. A reversal in the international gold movement was marked last spring by a \$1 billion outflow; unusually large purchases of Treasury bills by the Federal Reserve offset the monetary effects of this development.

The monetary policy of active ease was important in facilitating the movement of business and individuals toward an improved liquidity position with minimum disturbance to the markets for the goods and other equities liquidated.

With the development of strength in the bond market, borrowers moved during the first quarter to fund substantial amounts of floating debt. Demand for new long-term capital being likewise heavy, since midyear there has been a pronounced tightening in the market for such funds. The aver-

Table 2.—National Income by Distributive Shares, 1953–57, and First 3 Quarters, 1958

(Billions of dollars)

	1953	1954	1955	1956	1957	Seasonally adjusted at annual rates						
						1957				1958		
						I	II	III	IV	I	II	III
National income.....	305.6	301.8	320.2	349.4	364.0	361.5	344.1	368.7	361.5	350.6	352.4	-----
Compensation of employees.....	208.8	207.6	223.9	241.8	254.6	251.6	254.9	257.3	264.8	250.9	250.7	255.3
Wages and salaries.....	198.0	196.3	210.9	227.3	238.1	235.6	238.4	240.5	238.0	234.4	234.2	238.4
Private.....	164.2	161.9	174.9	189.3	198.0	196.2	198.6	199.9	197.4	192.7	191.8	195.0
Military.....	10.3	10.0	9.8	9.7	9.6	9.6	9.7	9.8	9.5	9.4	9.6	10.0
Government civilian.....	23.5	24.4	26.2	28.4	30.5	29.8	30.2	30.8	31.1	32.3	32.8	32.4
Supplements to wages and salaries.....	10.8	11.3	13.0	14.5	16.5	16.0	16.4	16.8	16.8	16.5	16.4	16.9
Proprietors' and rental income ¹	51.3	51.3	52.8	53.3	54.8	54.1	54.7	55.5	55.0	55.3	56.2	56.6
Business and professional.....	27.4	27.8	30.4	30.8	31.4	31.1	31.4	31.7	31.3	30.6	30.7	31.1
Farm.....	13.3	12.7	11.8	11.6	11.6	11.5	11.6	11.8	11.5	12.6	13.4	13.3
Rental income of persons.....	10.5	10.9	10.7	10.9	11.8	11.4	11.7	12.0	12.2	12.1	12.1	12.2
Corporate profits and inventory valuation adjustment.....	37.3	33.7	43.1	42.9	41.9	43.7	42.0	43.1	38.8	31.3	32.5	-----
Corporate profits before tax.....	38.3	34.1	44.0	45.5	43.4	46.1	43.5	44.2	39.9	31.7	32.0	-----
Corporate profits tax liability.....	20.2	17.2	21.8	22.4	21.6	23.0	21.7	22.0	19.9	16.1	16.3	-----
Corporate profits after tax.....	18.1	16.8	23.0	23.1	21.8	23.1	21.8	22.1	20.0	15.5	15.7	-----
Inventory valuation adjustment.....	-1.0	-.3	-1.7	-2.6	-1.5	-2.4	-1.5	-1.1	-1.1	-.3	.5	.2
Net interest.....	8.2	9.1	10.4	11.3	12.6	12.1	12.5	12.8	12.9	13.0	13.1	13.2
Addendum: Compensation of general government employees.....	31.8	32.3	34.0	36.3	38.6	37.3	38.4	39.1	39.2	40.0	40.8	41.9

1. Includes noncorporate inventory valuation adjustment.

Sources: U. S. Department of Commerce, Office of Business Economics.

age yield on U. S. Government long-term bonds, for example, rose from 3.19 percent in June to 3.75 percent in September.

As business recovered, demand for short-term funds also expanded markedly. In September and October the Reserve authorities moved to increase discount rates.

SWING IN INCOME FROM PRODUCTION

After an \$18 billion decline in annual rate from the 1957 summer peak, national income was approximately stable during the first half of this year at a little over \$350 billion. Earnings began to move upward in the spring, and have continued to increase. The third-quarter measure is still incomplete owing to the lack of profits data, but available indications point to a total rate above \$360 billion.

The impact of the recession was mainly in employee earnings and corporate profits. These two shares declined \$6½ billion and \$12 billion, respectively, after the third quarter of 1957. Changes in other types of income were generally limited and offsetting.

Employee compensation reached its low point in the spring

quarter. The total was up \$4½ billion in the third, at annual rates, and by the end of the summer monthly payrolls were close to the 1957 peak level. Corporate profits firmed slightly in the spring quarter, and the profit implications of the rise in corporate sales since then are confirmed by early third-quarter reports.

Measured before taxes and with an adjustment for inventory valuation, profits declined from a \$43 billion rate in the summer of 1957 to a little over \$31 billion in the opening quarter of this year—a reduction of 27 percent. Corporate business reduced its current rate of saving to absorb the accompanying drop of \$6½ billion in after-tax net income. Dividends were maintained.

Industry pattern of national income

It is possible to group the major industry divisions according to whether they depend chiefly on the final demand for commodities (and construction) or on the demand for services. In the case of commodities, moreover, certain lines can be distinguished as depending on the market for non-durables. This sort of classification is not at all clear cut, it should be noted. Aside from the fact that some industries turn out several types of products, there is the difficulty that service industries contribute indirectly to the production of final commodities and goods industries to the production of services. It seems broadly reasonable, however, to view agriculture, manufacturing, trade, transportation, mining, and construction as the more dependent on final demand for commodities, and to include finance, insurance, real estate, the services division itself, and government in the group more dependent on final demand for services.

An analysis in these terms shows substantially the pattern which would be expected from the changes reported in the composition of the GNP. In nearly all of the service-associated industries, income continued an uninterrupted growth from quarter to quarter during the past year, though the rate of gain was generally reduced. The commodity-associated industries, in contrast, nearly all reported some contraction after the peak summer quarter of 1957; the exception was in agriculture.

In manufacturing the flow of income registered the business recession with a third-to-first-quarter drop of \$14½ billion at annual rates, accounting for four-fifths of the total reduction for all industries combined. This decline centered in durables, where income originating was down \$11 billion, or one-sixth. The course of activity in these industry groups, reflecting the weakness of demand for consumer durables and producers' equipment, improved around mid-year as the tapering in liquidation of inventories in hard-goods industries allowed production to move up into closer alignment with final demand.

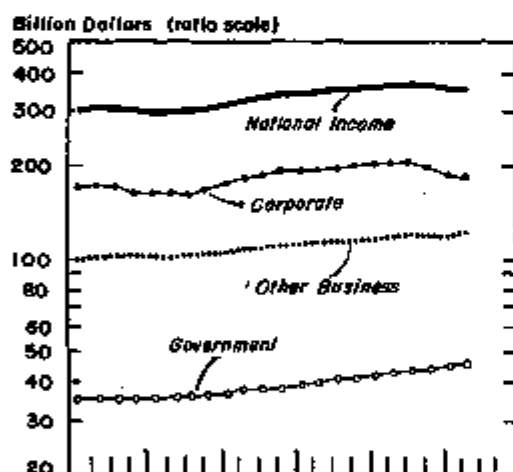
Of the other large commodity-associated industries, trade showed a slightly lesser relative decline than occurred in the national income total. This was consistent with the comparatively favorable experience of trade in the earlier postwar recessions. Income in agriculture has moved counter to the general trend during the past year. Supply conditions were such that farm prices tended to advance during most of the period. The downturn of prices which began toward midyear checked the rise in the farm income flow.

Monthly pattern of earnings

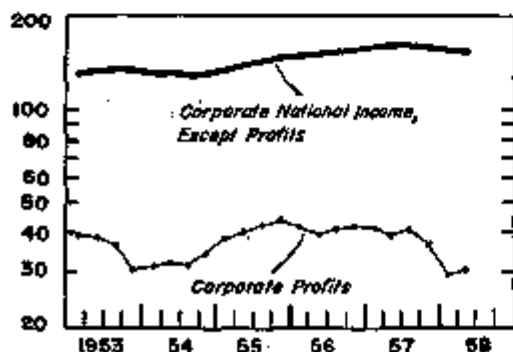
A convenient index of less-than-quarterly changes in the value of current production is provided by the movement of labor and proprietors' earnings, as included in personal income but with the major retroactive pay increases adjusted

National Income

Fluctuations mainly in corporate business . . .



with corporate profits especially volatile



QUARTERLY TOTALS, SEASONALLY ADJUSTED, AT ANNUAL RATES

to a when-earned basis. Other earned components of personal income—dividends, interest, and rent—are much less closely related to current monthly production.

The fall in labor and proprietors' earnings from their August 1957 peak, which was mainly responsible for the decline in personal income in the same period, slowed somewhat during the final months of 1957. It was accelerated after the turn of the year, however, with severe weather

conditions reportedly contributing to the decline in some areas.

From February through April the total of such earnings was stable on a monthly basis. Its leveling off combined with the continued growth of transfer payments to bring about the March upturn in personal income. Earnings turned up in May; and a sustained rise through the summer canceled virtually the entire decline from last year's peak.

Table 3.—Personal Income and Its Disposition, 1953-57, and First 3 Quarters, 1958

(Billions of dollars)

	1953	1954	1955	1956	1957	Seasonally adjusted at annual rates						
						1957				1958		
						I	II	III	IV	I	II	III
Personal income.....	288.3	289.8	310.2	330.5	347.9	342.3	348.4	351.8	349.7	347.8	349.8	357.5
Less: Personal tax and nontax payments.....	35.8	32.9	35.7	40.1	42.7	42.8	42.7	43.1	48.0	42.8	42.8	43.5
Federal.....	32.4	29.2	31.5	35.2	37.4	37.1	37.3	37.7	37.5	36.6	36.5	37.6
State and local.....	3.4	3.8	4.2	4.8	5.4	5.2	5.3	5.4	5.5	5.7	5.8	5.9
Equals: Disposable personal income.....	252.5	256.9	274.4	290.5	305.1	300.0	305.7	308.7	306.8	305.0	307.5	314.0
Less: Personal consumption expenditures.....	232.6	238.0	256.9	269.4	284.4	279.8	282.5	288.3	287.2	286.2	288.3	291.5
Equals: Personal saving.....	19.8	18.9	17.5	21.1	20.7	20.3	23.2	20.4	19.6	18.8	19.2	22.5

Source: U. S. Department of Commerce, Office of Business Economics.

Table 4.—Relation of Gross National Product, National Income and Personal Income, 1953-57, and First 3 Quarters, 1958

(Billions of dollars)

	1953	1954	1955	1956	1957	Seasonally adjusted at annual rates						
						1957				1958		
						I	II	III	IV	I	II	III
Gross national product.....	365.4	363.1	397.5	419.2	440.3	438.3	441.2	445.6	438.9	425.8	429.0	439.0
Less: Capital consumption allowances.....	26.5	28.8	32.0	34.7	37.7	36.6	37.5	38.1	38.5	38.9	39.3	39.7
Indirect business tax and nontax liability.....	30.2	30.2	32.9	35.6	37.6	37.1	37.8	37.9	37.7	38.0	38.3	38.6
Business transfer payments.....	1.4	1.3	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Statistical discrepancy.....	1.3	.9	1.0	-.9	.7	.9	1.5	.7	.7	-1.7	-1.1	-----
Plus: Subsidies less current surplus of government enterprises.....	-.4	-.2	.0	1.0	1.3	1.4	1.4	1.3	1.2	1.6	1.5	1.5
Equals: National income.....	305.6	301.8	330.2	349.4	364.0	361.5	364.1	368.7	361.5	350.6	352.4	-----
Less: Corporate profits and inventory valuation adjustment.....	37.3	33.7	43.1	42.9	41.9	43.7	42.0	43.1	38.8	31.3	32.5	-----
Contributions for social insurance.....	8.7	9.7	11.0	12.3	14.2	14.0	14.1	14.3	14.2	14.2	14.2	14.7
Excess of wage accruals over disbursements.....	-.1	.0	.0	.0	.0	.0	.0	.0	.0	.8	.3	-1.5
Plus: Government transfer payments.....	12.9	15.0	16.0	17.1	19.9	18.4	19.9	20.0	21.3	22.5	24.6	25.2
Net interest paid by government.....	5.2	5.4	5.4	5.7	6.2	6.1	6.2	6.2	6.2	6.3	6.2	6.2
Dividends.....	9.2	9.8	11.2	12.9	12.4	12.5	12.6	12.7	12.0	12.5	12.4	12.5
Business transfer payments.....	1.4	1.3	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Equals: Personal income.....	288.3	289.8	310.2	330.5	347.9	342.3	348.4	351.8	349.7	347.8	349.8	357.5

Source: U. S. Department of Commerce, Office of Business Economics.